



# The President's “Twenty In Ten” Energy Security Plan

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*March 1, 2007*

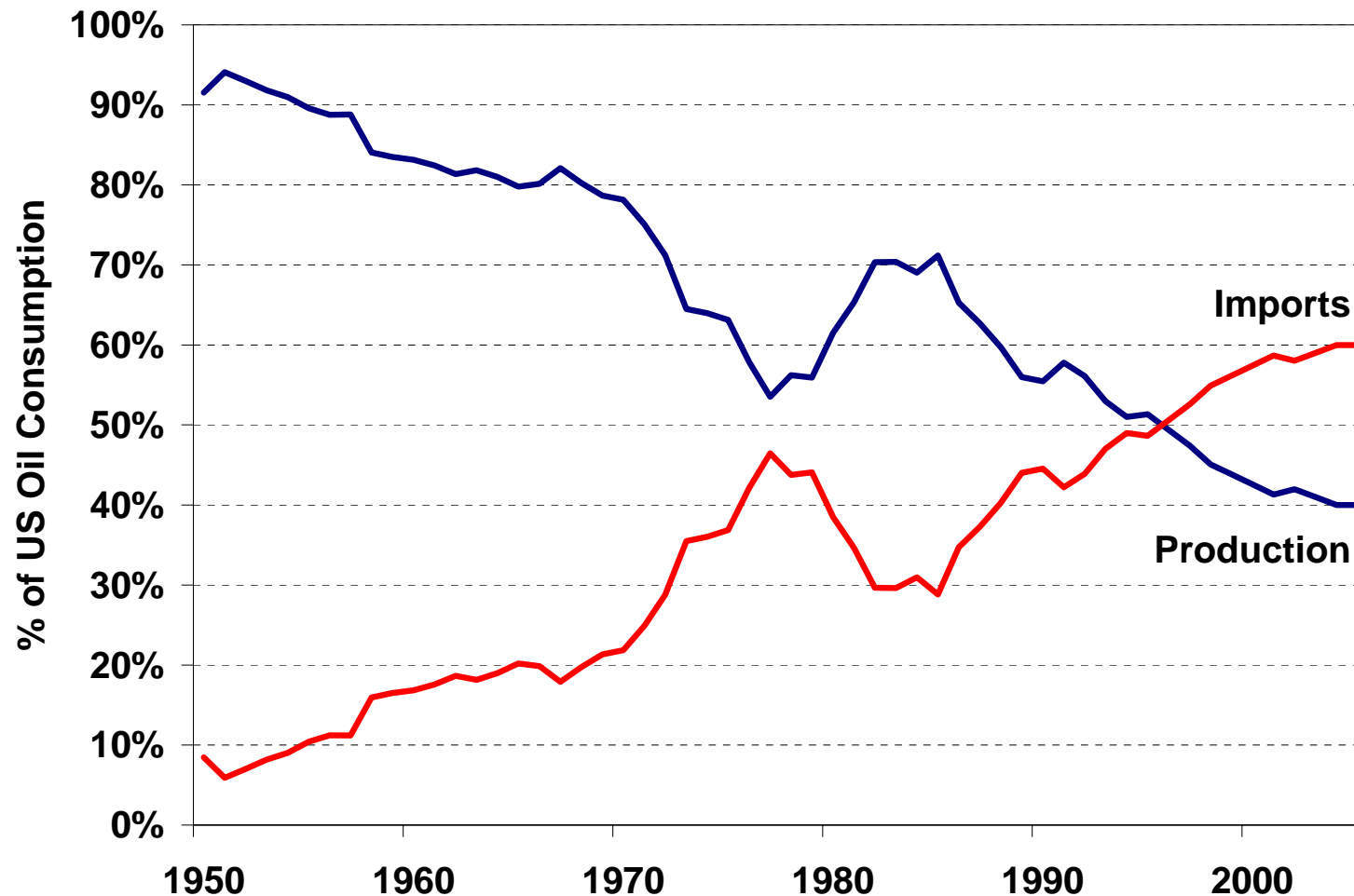


# Agenda

- Overview of oil and the United States
- Security risks resulting from oil
- Key elements of energy security
- The President's "Twenty In Ten" plan
- Questions

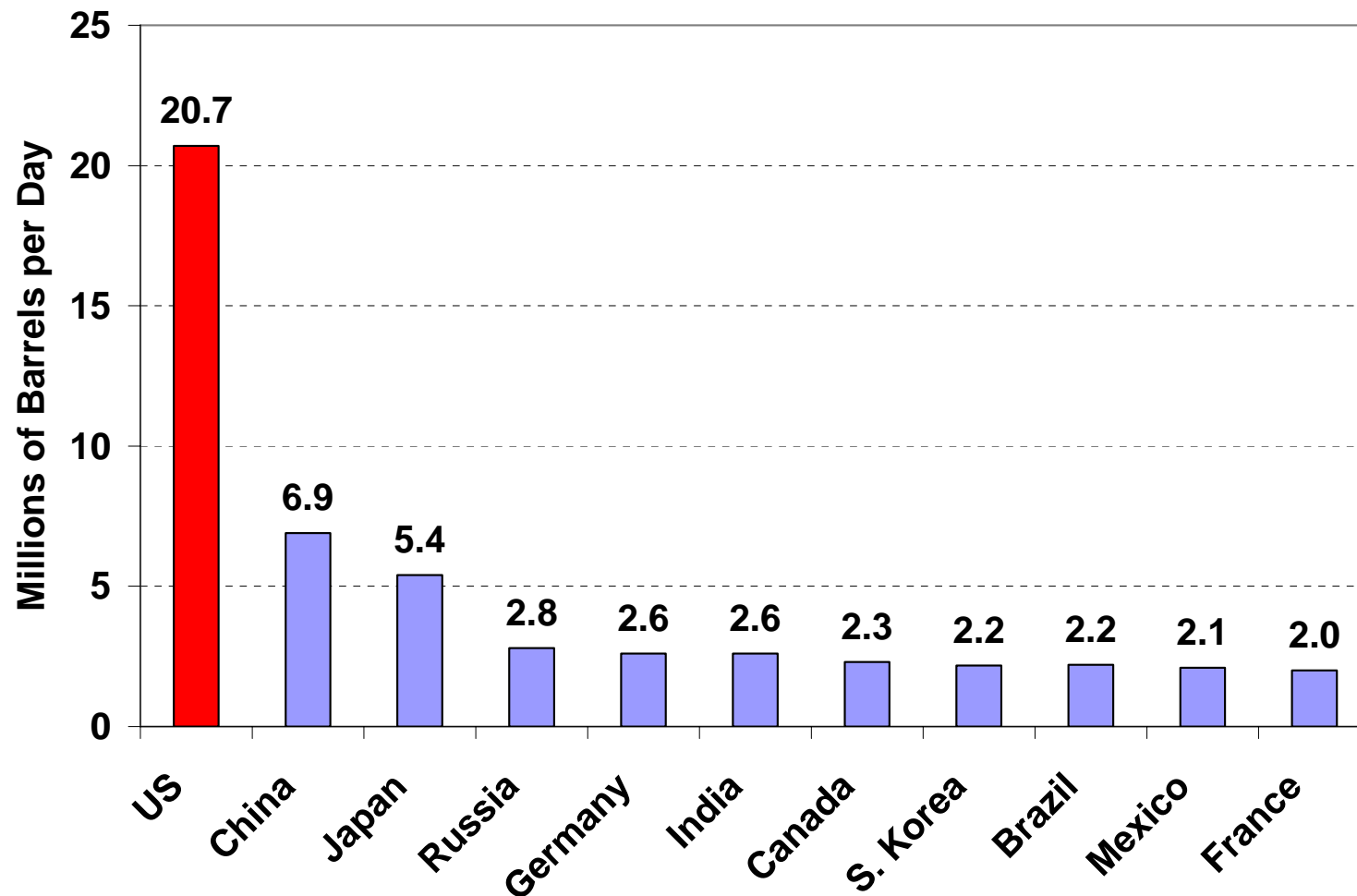
# Overview of Oil and the U.S.

*Imports are rising as US production slows*



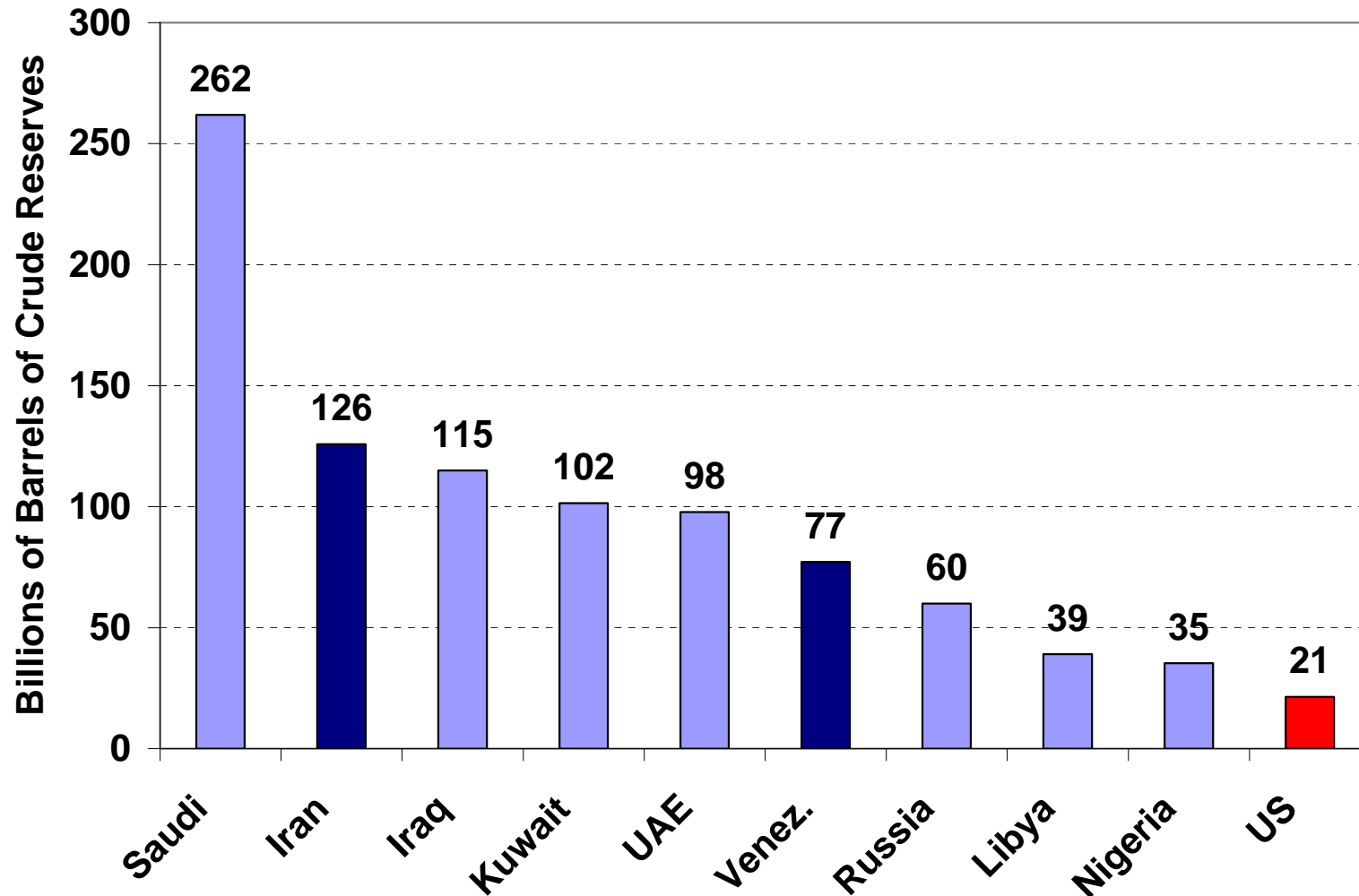
# Top Oil Consuming Countries

*US is largest consumer with China growing quickly*



# Crude Oil Reserves by Country

*US has 10<sup>th</sup> largest proven reserve*





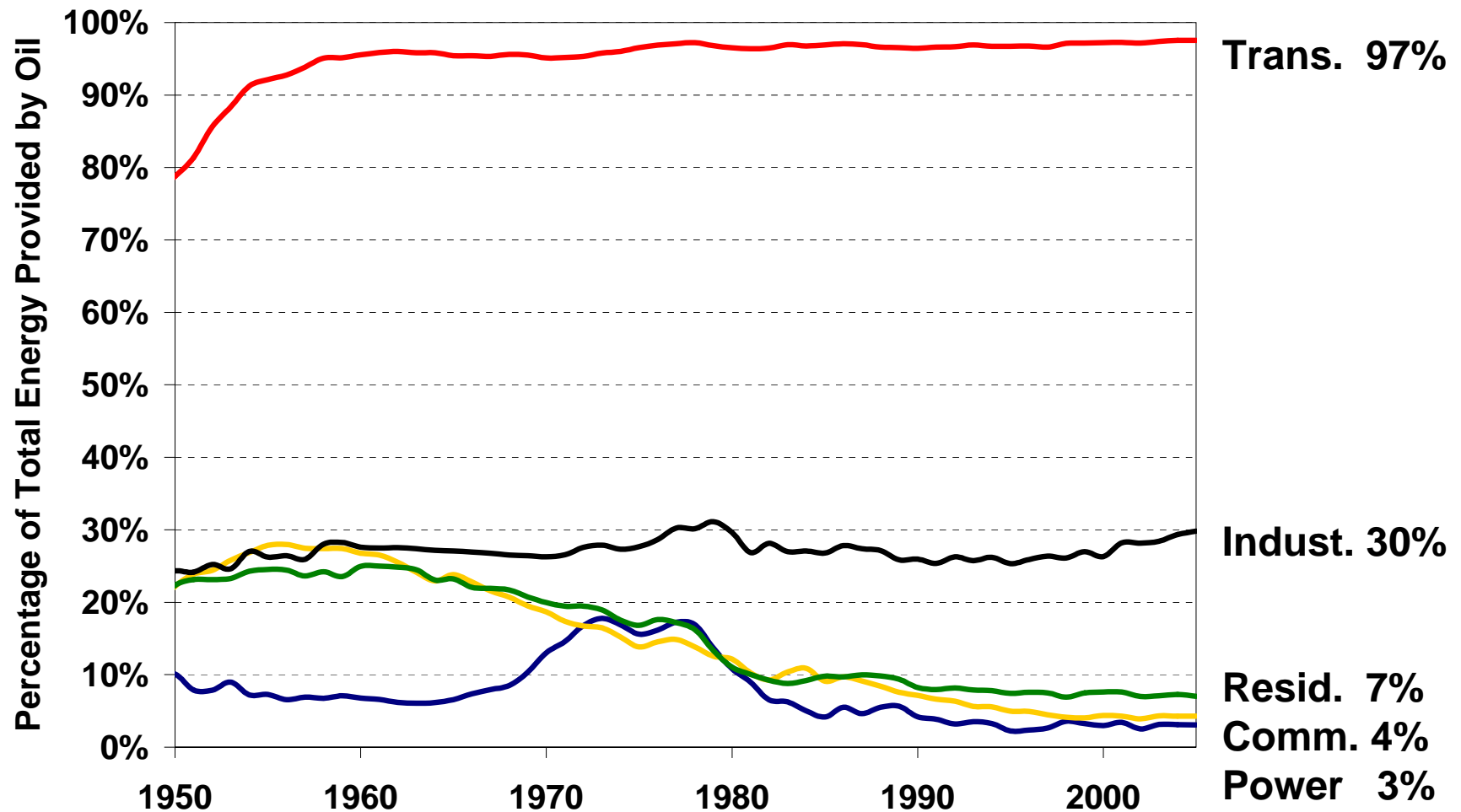
# Overview of How We Use Oil

*Approx. 2/3 of oil is used for transportation*

- Gasoline: 44%
- Fuel oil (diesel and home heating): 22%
- Jet fuel: 9%
- Other: 25%

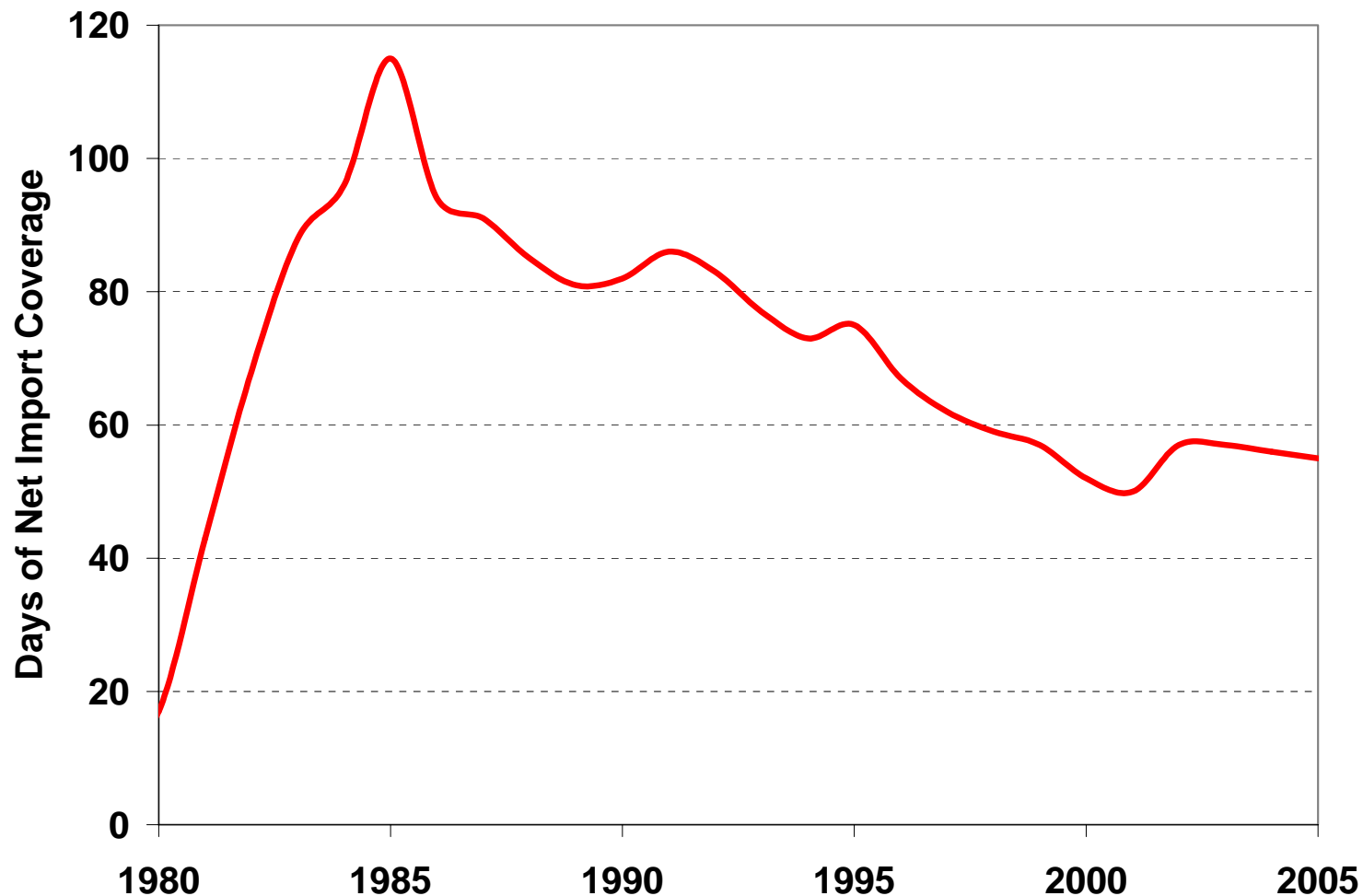
# Oil's Share of Energy by Sector

*Oil continues to dominate the transportation sector*



# Strategic Petroleum Reserve

*Coverage hasn't kept up with rising imports*



Source: Energy Information Administration, 2005






# Our Use of Oil Presents Risks

## ■ Economic risks

- Volatile prices hurt families and businesses
- Terrorists view global oil infrastructure as attractive target to hit us

## ■ National security risks

- Iran / Venezuela emboldened by high prices
- Diplomatic, political and military costs



# “Twenty In Ten” – A Bold Plan

- Reduce gasoline usage 20% in 10 years
  - Use alternatives for 15% of fuel
  - Reduce consumption up to 5% through efficiency
- Aggressively push technology development
- Potential for even larger savings in later years



# Key Steps to Energy Security

1. Increase diversity of energy in transportation
2. Increase production and reduce consumption to slow growth of oil prices
3. Increase ability to manage risks

# Step 1: Increasing Diversity

*Developing attractive oil alternatives is the key*

- Investors take technology risk every day
- Adding oil price risk restrains investment
- High oil prices needed to spur alternatives
- Policy challenge: how to provide market certainty without choosing winners?

# Policies to Provide Certainty

*Firms need high prices; consumers need low prices*

## ■ Oil price floor

- ☐ Administratively difficult
- ☐ Rewards oil suppliers
- ☐ Success brings increased distortion

## ■ Variable subsidies

- ☐ Expensive and very hard to sunset
- ☐ Success brings increased distortion

## ■ Expanded fuels standard

# Expanded Fuels Standard

*Provides certain market without selecting winners*

- 35 bn gallons by 2017 (15% of fuel)
- Expanded to include all alternatives to oil
- Provides large, certain market for investors
- Success can bring low costs to consumers and low market distortion
- Automatically sunsets with success
- Consumers protected by safety-valves

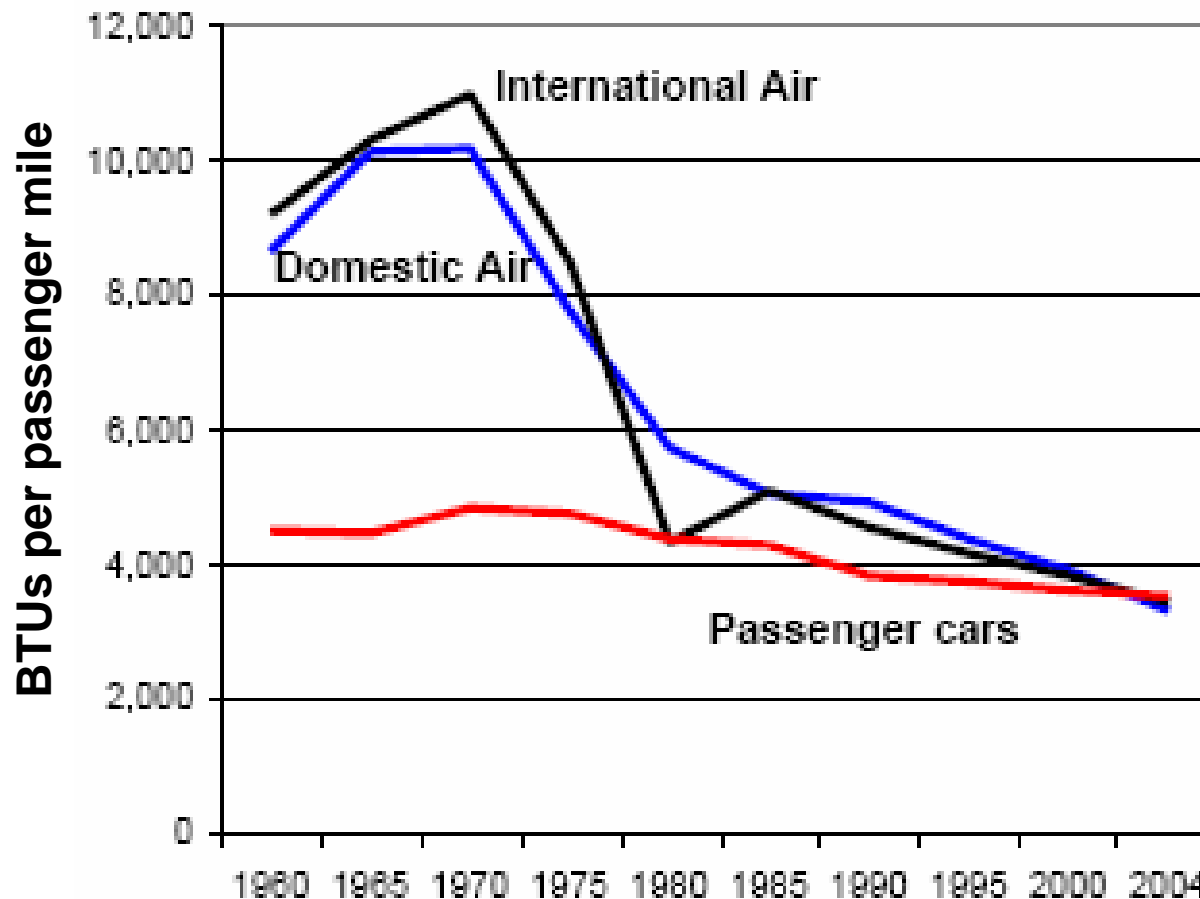
# Step 2: Slow Price Growth

*Only way to stop “funding enemies” is with low prices*

- Reducing consumption has dual benefits of lower prices and reduced oil intensity
  - CAFE unchanged at 27.5 mpg since 1990
  - Currently a one-size-fits-all requirement
  - Incentivizes smaller and less-safe vehicles
  - Penalizes automakers who specialize in larger vehicles
  - Provides little incentive for small car makers
- Increasing supply of oil important too – benefits shared globally

# Auto Efficiency Has Lagged

*Airplanes have improved more than cars*







# Reforming CAFE Intelligently

*Saving up to 5% in 2017 while preserving safety*

- Secretary of Transportation to set standard using sound science
  - Preliminary analyses suggest 4% annual increases
- Attribute-based to preserve safety and not unfairly penalize U.S. automakers
- Trading of credits to minimize costs
- Even larger fuel savings in later years



# Step 3: Risk Management

*Doubling the Strategic Petroleum Reserve (SPR)*

- SPR created by President Ford following 1973 oil embargo
- “Insurance policy” to manage oil disruptions
- Plan to double reserve to 1.5bn barrels by 2027 without affecting prices
- Increases the severity and duration of disruptions we can manage

# “Twenty In Ten” – A Bold Plan

*Pushing the envelope on all three steps*

- Reduce projected gasoline consumption 20% in 10 years; double the SPR
- Reduce oil consumption by 2 million barrels per day in 2017 (10%)
- Increase alternatives from 3% today to 15% in 2017
- Potentially stop growth of CO<sub>2</sub> from autos
- Will encourage others to adopt similar policies